

ARTICLE APPEARED

ON PAGE 26

WALL STREET JOURNAL

11 February 1985

Chile's Middle Class Contemplates Alternatives, Possibly Marxist, to Economic Nightmare, Chaos

By LYNDA SCHUSTER

Staff Reporter of THE WALL STREET JOURNAL

SANTIAGO, Chile—While the debt crisis has eased in some Latin American countries, here in Chile its fallout is imperiling the 11-year-old dictatorship of Gen. Augusto Pinochet.

Like other Latin debtors, Chile has imposed stiff austerity measures in response to lender pressure. The measures have created an economic nightmare that is destroying the middle class, which accounts for almost half the 11 million people of this Andean nation. Many Chileans fear all this is leading to spiraling chaos over the next couple of years in which the country's Marxist parties could emerge the eventual victors.

"Pinochet is turning Chile into another Nicaragua," warns a prominent engineer, referring to the 1979 overthrow of the late Gen. Anastasio Somoza by leftist Sandinist guerrillas. (Like most people here, the engineer says he's too scared of government reprisals to have his name used.) "Somoza choked off the moderate opposition and left the middle class no choice but to join the Marxists. That's what Pinochet is doing."

This alarms the Reagan administration. When the Marxists were in power here in the early 1970s, the U.S. covertly worked to undermine the government and may have had a hand in its eventual overthrow in 1973. A Marxist surge now could encourage other anti-American forces fighting in neighboring Peru or even El Salvador. The turmoil also could jeopardize Chile's ability to pay its debt.

A Firm Leader

People here are quick to point out that there also are lots of differences between Chile and pre-revolutionary Nicaragua. And despite popular unrest, the general still has a grip on the nation, enforced by grimly efficient army troops and police.

But the increasing eagerness of white-collar workers to embrace almost any alternative illustrates the close relationship in Latin America between economic distress and political instability. Consider Chile's economic catastrophe: a rash of bankruptcies, 25% unemployment and scenes straight out of North America's Great Depression of the 1930s.

"I never have been so frightened in my life," says one former auto executive, out of work since 1982. "Every day my future gets darker and my pocket emptier. I've reached a point where I've got to do something, to join those who are trying to oust this government."

Chile's riches-to-rags saga began when Gen. Pinochet did away with his predecessor's socialist economy and let free-market policies flourish. Foreign bankers flush with petrodollars showed up around the same time, touching off a wild borrowing and spending spree wistfully remembered as "the boom."

The foreign debt increased 133%, to \$15.6 billion, between 1978 and 1981, the boom years. Imports shot up about 200%. The country's rate of increase in the total value of goods and services doubled to a whopping 7% annually. Chileans never had seen anything like it.

"We could buy jeans," recalls Andres Allamand, a young lawyer who heads the center-right National Union Party. "My God, to grow up in a developing country and suddenly be able to buy American jeans."

But bankers got nervous about Chile's ability to pay all the billions and started cutting back early in 1982. Disaster followed: about 1,500 of the country's 4,000 companies went belly up in two years. So did the banking system: bad loans totaled 165% of capital and reserves.

Like other Latin countries that similarly indulged, Chile paid for its financial fiesta after it was over. Gen. Pinochet in 1983 had to agree to tough austerity measures in exchange for emergency loans from the International Monetary Fund. He has devalued the peso, the country's currency, by 70% against the dollar since 1981 and cut imports in half. Worse yet, prices for copper—the country's main hard-currency earner—have dropped 40% in the last three years.

As a result, economic activity has slowed to a snail's pace. And Chile, like most other Latin nations, doesn't have unemployment compensation. The closest thing to welfare is the government's make-work program, where workers earn 70 cents a day doing menial tasks.

Cry of Frustration

For highly trained professionals, it can be as humiliating as no job at all. Consider a 30-year-old chemical engineer who recently got such a government job after three years. Anger etches taut lines in her face when she describes her tasks handling materials in a municipal warehouse. She lies to her friends about what she does; it's too embarrassing.

"I can't imagine my future," she blurts out, choking back tears. "I'm so frustrated, so vulnerable, if someone came along with a better idea for the country, I'd listen."

Others here, like the inspector for a fishing company, figure anything is better than sweeping streets. He bought a map three years back when he was laid off, painted his 1978 Subaru black and yellow—and became a cabbie. He makes about \$100 a month, enough to keep his wife and two children alive—but not to buy spare parts. With 80,000 miles already on the car, he reckons it will die in another year.

"The government is killing us slowly," he says.

Medical experts worry that all the anxiety about the economy is creating a mental-health crisis. Sales of tranquilizers are up 40% this year at Santos Pharmacy, across the square from the presidential palace. One psychologist says that marital separations among her middle-class clients have increased 50%. A spate of suicides, crowded in next to the usual cheesecake cuties, is recorded on the front pages of the daily newspapers Gen. Pinochet still allows to publish.

The economy's disintegration has created a new political perspective for many in the middle class. Explains one Santiago manufacturer: "We knew this government was repressive. When the economy was good, it was easy to ignore all that. Now that the good times are over, the veil is off and we want Pinochet out."

The general apparently isn't about to leave without a fight. For a while last summer, he flirted with the idea of holding early elections—he isn't scheduled to step down until 1989—and allowed open political debate. But in a brutal reversal last November, he shut down opposition publications, slapped on a curfew and tough censorship rules, and raided slums for alleged troublemakers.

Gen. Pinochet's excuse for the state-of-siege measures—which were extended last week for another three months—was a wave of bomb attacks by leftist terrorists. Political analysts see the state of siege more as an attempt to crush his opponents. Whatever the motive, he also is crushing chances for a moderate opposition to emerge. The centrist parties already were a hodgepodge of bickering leaders. Now they have little hope of attracting strong support without the media to get their message across.

Continued

2.

Not so the Communists, who are old hands at operating underground. Unlike the other leftist parties that were decimated by former President Salvador Allende's downfall in 1973, the Communists cultivated perhaps the most effective party structure. And while no one here is suggesting wholesale conversion of middle-class people, many fear that the general is pushing them toward that visible alternative.

What Way Out?

Some in the middle class still see his point of view, however. Leslie Cooper, an economist, thinks the country needs a strong hand. "How else are we going to get out of this economic mess? We can't work if Pinochet doesn't fight the terrorists," he says.

Perhaps. But with foreign bankers unwilling to increase the \$780 million they loaned in 1984, government officials estimate that the economy won't grow this year and that unemployment could rise by another five percentage points.

While that would be devastating enough to the middle class, it would be pure disaster in the labyrinth-like slums of south Santiago. These are places like La Legua, where the stench of poverty hangs heavy in the air and people lost hope a long time ago.

A bunch of women sit around a community house, making little doodads to sell in the local market. They talk to make themselves feel better. Stories of having enough money to eat only once a day. No meat, no milk; just beans and potatoes. Tales of Gen. Pinochet's soldiers storming their homes in middle of the night, dragging away husbands and sons. Their knitting needles clack furiously.

A dark-haired woman sits off to the side, taking in the jabber. "When people have hunger, you can stop them only for a while," she says softly. "This is a civil war now. We're just waiting for arms."